



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Dental Source of Missouri & Kansas, Inc as of December 31,
2007

ORDER

After full consideration and review of the report of the financial examination of Dental Source of Missouri & Kansas, Inc for the period ended December 31, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Linda Bohrer, Acting Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Dental Source of Missouri & Kansas, Inc, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this December 11, 2008.

Linda Bohrer

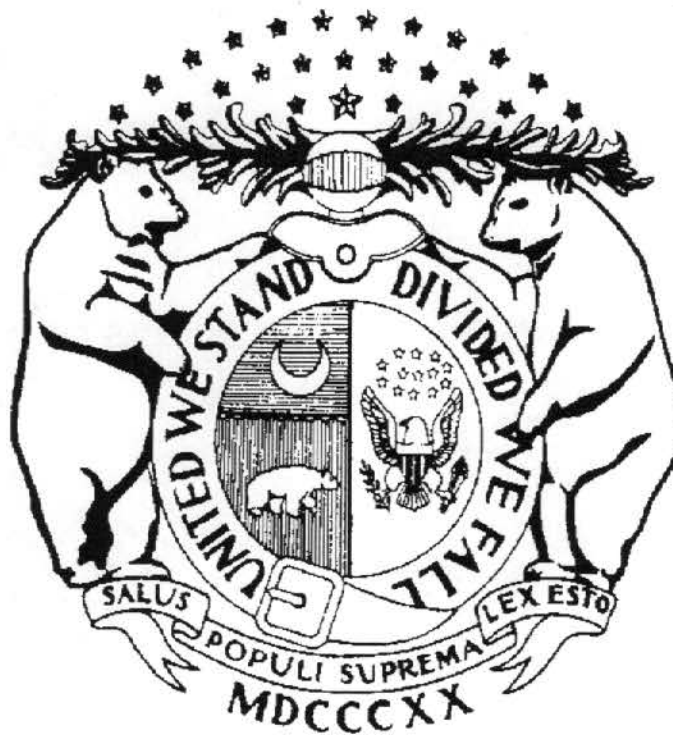
Linda Bohrer, Acting Director
Department of Insurance, Financial Institutions
and Professional Registration



REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
**DENTAL SOURCE OF MISSOURI AND
KANSAS, INC.**

AS OF
DECEMBER 31, 2007

FILED
DEC 21 2008
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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Kansas City, Missouri
September 24, 2008

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee

Honorable Merle D. Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable Linda Bohrer, Acting Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Ladies and Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Dental Source of Missouri and Kansas, Inc.

hereinafter referred to as such, as Dental Source, or as the Company. Its administrative office is located at 9091 Stateline Road, Suite 101, Kansas City, Missouri 64114, telephone number (816) 523-8900. This examination began on May 27, 2008, fieldwork was completed on August 8, 2008 and the examination report was concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Dental Source of Missouri and Kansas, Inc. was made as of December 31, 2004, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covered the period from January 1, 2005, through December 31, 2007, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, BDO Seidman, LLP, of Houston, Texas, for its audit covering the period from January 1, 2007, through December 31, 2007. Information relied upon included cash and investment account confirmations, attorney letters, tests of controls, and narrative descriptions of processes and controls.

Comments - Previous Examination

Listed below are comments, recommendations and notes of the previous examination report dated as of December 31, 2004, and the subsequent response or action taken by the Company.

Corporate Records

Comment: The Company was ordered to determine whether it intends for the changes noted in the August 1996 shareholder meeting to be incorporated into its Bylaws. It was also noted that the Written Consents of the Sole Shareholder and Board of Directors' meeting minutes did not properly reflect all material corporate transactions and events of the Company, such as the transfer of ownership of the Company to First Continental Life & Accident Insurance Company (First Continental or FCL). As indicated in the prior full scope financial examination, the Company was directed to ensure that all material corporate transactions and events of the

Company are brought to the attention of and approved by the shareholder and/or Board of Directors in a timely manner and are properly documented in the corporate minutes.

Company's Response: The Company assured in its response that all material transactions will be approved by the Board of Directors in a timely manner.

Current Findings: Review of the minutes of the Board of Directors meetings and Written Consents of the Sole Shareholder in all materials respects approved the transactions of the Company during the examination period. Although the Company's response did not specifically address the issue, however, the examinations review of the Bylaws did not indicate the need for any amendment.

Intercompany Transactions

Comment: It was noted that the management fees paid during the examination period appeared to be unjustified and unreasonably high. As was recommended in the previous two examination reports, the Company was once again directed to amend the Management Services Agreement for the purpose of lowering the management fee to a level that will more reasonably compensate its affiliates for services provided or revise the contract to better illustrate the services provided and supply evidence that such services are indeed provided.

Company's Response: The Company disagreed with the recommendation in its response, contending that the personnel of the affiliates spends an extraordinary amount of time and resources to manage the affairs of the Company and, accordingly, believes that the management fees paid are fair and reasonable.

Current Findings: No material exception was noted in this area during this examination as the Company amended the original management contract and the management fees paid beginning in 2006 were lower than those in prior periods.

Intercompany Transactions with No Agreement

Comment: The examination uncovered a situation whereby Dental Economics, LLC, an affiliate was performing payroll processing services for the Company without a related party agreement. Although, the only amounts paid by Dental Source to Dental Economics, LLC appear to be for direct reimbursement of payroll expenses paid by Dental Economics, LLC on behalf of Dental Source, the Company should still obtain a written agreement for this arrangement.

Company's Response: The Company responded that the payroll processing services are part of the Management Contract already approved by the DIFP and that the direct reimbursements of payroll expenses incurred by Dental Source are documented in the payroll records.

Current Findings: The Company amended the original Management Services Agreement described above and replaced it with another Management Contract that rectified the comment in the prior examination.

Fidelity Bond and Other Insurance

Comment: The examination noted, as was indicated in the prior two full scope examination reports, the Company had not acquired directors' or officers' liability and errors' and omissions' liability insurance coverage to protect itself from potential claims. The Company was directed to acquire directors' and officers' liability and errors' and omissions' liability insurance coverage to adequately protect itself.

Company's Response: The Company responded that it will continue to monitor the cost in relation to the benefits of obtaining the coverages indicated.

Current Findings: The current examination noted some issues which has been communicated to the Company in separate communication.

Marketing

Comment: It was noted that the Company did not have written agreements for several of its active agents. Furthermore, in the one instance where the Company was able to provide a written agreement, it was noted the Company was paying a different commission rate than the rate stated in the agreement. The Company was directed to ensure that written agent agreements are obtained for all agents and brokers who market the Company's products, and that the provisions of agent agreements are followed.

Company's Response: The Company responded that it has updated its agents' records to ensure that written agreements are obtained for all agents and brokers and that agency agreement terms will be followed.

Current Findings: No material exceptions were noted with respect to agency agreements during this examination.

Provider Agreements

Comment: It was noted that the Dentist FAP Contract and Specialist FAP Contract were not filed with the DIFP as required by Missouri Regulation 20 CSR 400-8.200 (Procedures for the Filing of All Policy Forms and Certain Rates for Life or Health Policies, Contracts or Related Forms). The Company was directed to ensure that all policies, contracts and related forms are filed with the DIFP in accordance with Missouri Regulation 20 CSR 400-8.200.

Company's Response: The Company responded that all future policies, contracts and related forms will be filed with the DIFP in accordance with the applicable Missouri regulation.

Current Findings: Provider agreements reviewed during this examination were filed with the DIFP.

Custodial Agreements

Comments: The examination noted that the custodial agreements with Central Bank and with Commerce Bank did not contain all of the safeguard provisions specified in Part 1, Section IV of the NAIC Financial Condition Examiners Handbook. The Company was directed to amend or restate the custodial agreements so that they contain all of the NAIC specified safeguard provisions. Until such time as the agreements are brought into compliance with NAIC guidelines, they should be disclosed in General Interrogatory 23.02 of the Annual Statement relating to custodial agreements that do not comply with NAIC guidelines.

Company's Response: The Company agreed to restate the custodial agreements to meet the specific standards.

Current Findings: Custodial agreements reviewed during this examination were found to be in compliance with the safeguards required by the NAIC Financial Examiners Handbook.

Companion Life Advance Premiums

Comments: The examination noted that the Company was improperly reporting "Advance Premiums" belonging to another entity as part of its own "Advance Premium" account on the Annual Statement. The Company was directed to report the value of the "Advance Premium" of the other party in the "Amounts Withheld or Retained for Others" line of the Annual Statement.

Company's Response: The Company agreed to comply with the recommendation beginning with the statutory second quarter statement in 2005.

Current Findings: The Company entered into a similar arrangement with a related party and the accounting for the "Advance Premium" is being incorrectly reported as well. This has been communicated to the Company in separate communication. See also the Accounts and Records section of this report for more details regarding reporting issues.

Escrow Suspense Account

Comments: The examination noted that the Company reports partial premium payments received through member payroll deductions in an escrow suspense account until the full amount of the premium is collected, due to the fact that its premium system will not accept partial payments. The Company reported the escrow suspense account as an aggregate write-in for liabilities on the Annual Statement. Per the NAIC Annual Statement Instructions for Health Companies, cash receipts that cannot be identified for specific purposes, or for other reasons cannot be applied to a specific account when received, are to be reported on the "Remittances and items not allocated" line of the Annual Statement. The Company was directed to ensure that the escrow suspense amounts were properly reported on future Annual and Quarterly Statement filings.

Company's Response: The Company agreed to comply with the recommendation beginning with the statutory second quarter statement in 2005.

Current Findings: The escrow suspense account was properly reported during the examination period.

HISTORY

General

Dental Source of Missouri and Kansas, Inc. was incorporated on December 21, 1989, and commenced business on January 1, 1990, under Chapter 354 RSMo (Health Services Corporations-Health Maintenance Corporations-Prepaid Dental Plans). Dental Source is a prepaid dental plan that provides dental memberships to groups and individuals in Missouri and Kansas.

On June 5, 1998, Dental Source was purchased by Dental Economics LLC, a Texas company, pursuant to the terms and conditions of a Stock Purchase Agreement. On June 26, 1998, Dental Economics, LLC entered into an agreement with Dental Economics, LP whereby 100 percent ownership interest in Dental Source was assigned to Dental Economics, LP. Simultaneous to the acquisition of Dental Source, Dental Economics, LP also purchased Corporate Dental Care, Inc., a Missouri domiciled prepaid dental plan, and merged its operations into Dental Source.

Effective January 1, 2005, the ownership of Dental Source was transferred from Dental Economics, LP to First Continental Life & Accident Insurance Company (FCL), a newly acquired subsidiary of Dental Economics, LP.

Capital Stock

The Company is authorized to issue 50,000 shares of \$1 par value common stock. As of December 31, 2007, all 50,000 authorized shares were issued and outstanding for a common capital stock account balance of \$50,000. All the issued and outstanding shares are wholly owned by First Continental Life & accident Insurance Company, the immediate parent of Dental Source.

Dividends

No dividends were declared or paid by the Company during the period under examination.

Management

The management of the Company is vested in a Board of Directors that are appointed by the Sole Shareholder. The Company's Bylaws specify the total number of directors shall be three. The directors serving at December 31, 2007, were as follows:

Name	Address	Business Affiliation
James A. Taylor	Richmond, Texas	President and Treasurer, Dental Source of Missouri and Kansas, Inc.
Christopher S. Gaffney	West Newton, Massachusetts	Managing Partner Great Hills Partners, LLC
George C. Kopp, III	Prairie Village, Kansas	Vice President, Dental Source of Missouri and Kansas, Inc.

Officers

Pursuant to its Bylaws, the officers of the Company shall consist of a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers as the Board of Directors may deem appropriate. Officers serving as of December 31, 2007, were as follows:

<u>Officers</u>	<u>Position with the Corporation</u>
James A. Taylor	President and Treasurer
George C. Kopp	Vice President
Rick L. Barrett	Secretary

Conflict of Interest

The Company has a policy that requires all officers, directors, and key employees to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company for the period under examination. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

The minutes associated with the Company's Board of Directors' meetings and Written Consents of the Sole Shareholder were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

Effective January 1, 2005, all 50,000 shares of the Company's capital stock were transferred to First Continental Life & Accident Insurance Company (FCL), and FCL became the sole direct owner and shareholder of Dental Source with Dental Economics, LP remaining the direct parent of FCL.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

Dental Source of Missouri and Kansas, Inc. is a member of an Insurance Holding Company System pursuant to Section 382 RSMo (Insurance Holding Companies), which incorporates the definition of an insurer under Section 375.012 RSMo (Definitions). As of December 31, 2007, Dental Source was a wholly owned subsidiary of First Continental Life & Accident Insurance Company (FCL), which is a wholly owned subsidiary of Dental Economics, LP, which in turn is owned by several parties. As of December 31, 2007, the majority ownership interest in Dental Economics, LP was Media Communications Partners III, Limited (M/C Partners III, Ltd), which held a 72.45 percent interest. James A. Taylor, an individual, held a 22.75 percent interest.

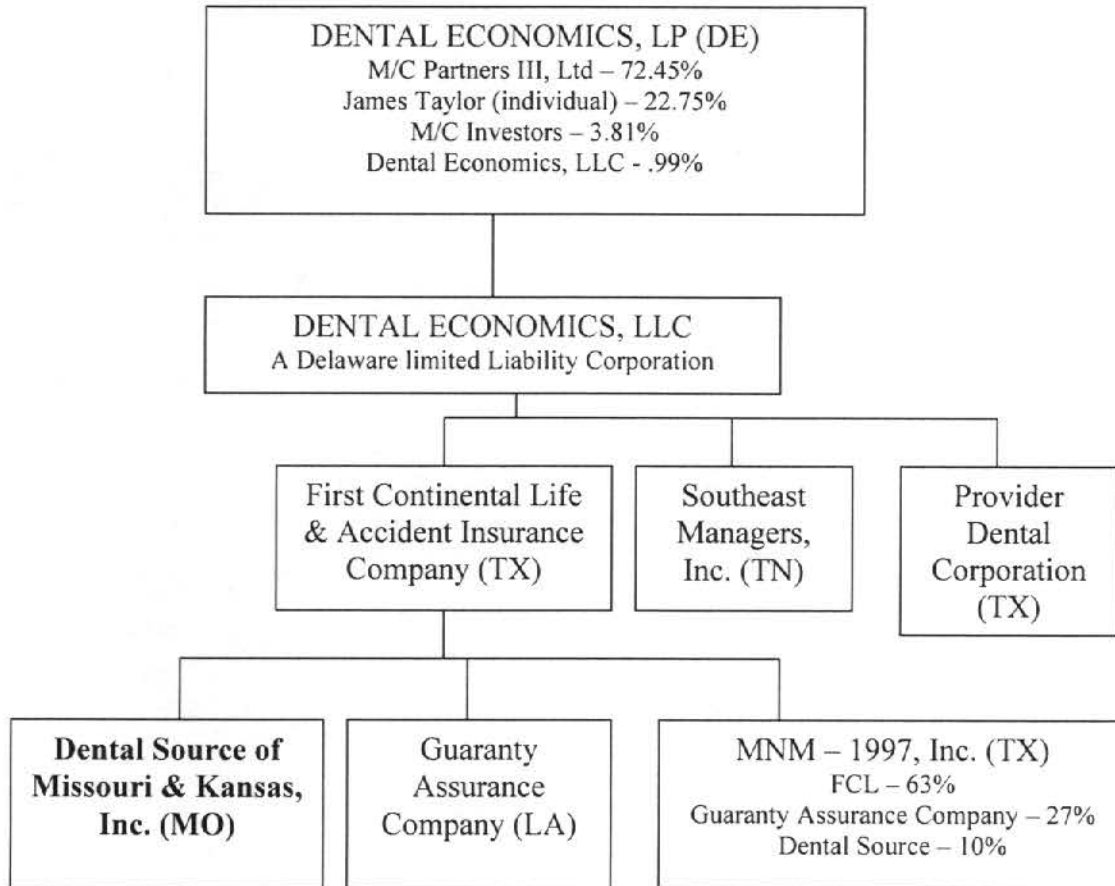
Media Communications Partners III, Limited, a Delaware limited partnership and the largest shareholder, is a limited partnership of investors formed in 1996 with primary investment focus directed towards a variety of industries, which include, but are not limited to, telecommunications, information technology services, internet services and radio broadcasting.

Dental Economics, L.P. (Dental Economics), the ultimate controlling entity within the holding company system, was organized on June 26, 1998. The general partner interest is held by Dental Economics, L.L.C. Dental Economics, a Delaware corporation, was formed to acquire, hold and operate prepaid dental health maintenance organizations.

First Continental Life & Accident Insurance Company is a Texas domiciled life and health insurance company.

Organizational Chart

The following organizational chart depicts the holding company system of Dental Source of Missouri and Kansas, Inc. as of December 31, 2007: Note, Dental Economics wholly owns all the entities depicted.



Intercompany Transactions

The Company is a party to the intercompany agreements outlined below.

1. **Type:** Management Services Agreement
- Parties:** First Continental Life & Accident Insurance Company (FCL)
- Effective:** January 1, 2005 – replaced by Management Services Agreement in #2 below
- Terms:** Under the terms and conditions of this agreement, FCL agrees to provide Dental Source with executive management type services, which include, but are not limited to, marketing, accounting, data processing and overall management of the Company. In consideration for the services provided, the Company agrees to pay FCL a monthly management fee equal to the greater of \$75,000 or 25 percent of monthly gross revenue.

2. **Type:** Management Services Agreement
- Parties:** FCL and Dental Economics
- Effective:** January 1, 2006 – replaced Management Services Agreement in #1 above
- Terms:** Under the terms and conditions of this agreement, FCL/Dental Economics agrees to provide Dental Source with facilities, equipment, supplies and management, which include, but are not limited to, marketing, accounting, data processing and overall management of the Company. In consideration for the services provided, Dental Source pays FCL/Dental Economics a management fee based on the percentage of the Company's active group contracts to the total active group contracts in the holding company system, plus the cost of office space directly provide by FCL/Dental Economics. Payment is due on or before the 30th day of the following month.
3. **Type:** Affiliated Partners Administrative Agreement
- Parties:** FCL
- Effective:** January 1, 2006
- Terms:** Under the terms and conditions of this agreement, Dental Source shall provide FCL, billing, collection, remittance services and applicable premium reports for indemnity dental group policies sold on behalf of FCL. The FCL indemnity dental plan is available to the Company's new and existing group business. Dental Source will deduct an administrative fee of two percent (2%) of gross premium after any applicable third party commissions. All premiums deemed funds of FCL will be remitted to FCL net of applicable administrative fees and commissions within 45 days of the premium due date.

The following is a table of amounts incurred and/or received under the intercompany agreements summarized above for the three years under examination.

Agreement	2007	2006	2005
Management Services Agreement	\$ (509,569)	\$ (511,000)	\$ (847,000)
Affiliated Partners Services	36,953	29,852	6,552
TOTALS	\$ (472,616)	\$ (481,148)	\$ (840,448)

FIDELITY BOND AND OTHER INSURANCE

Dental Source of Missouri and Kansas, Inc. is a named insured on a crime policy with a total liability limit of \$500,000 and a \$5,000 deductible. This coverage complies with the suggested minimum amount of fidelity insurance according to the NAIC guidelines. In addition the policy is in compliance with Section 354.705, RSMo (Qualifications).

The Company maintains workers compensation insurance coverage and is also covered under a Commercial Marketplace policy, comprising business personal property, business liability and blanket limit (umbrella coverage).

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Dental Source of Missouri and Kansas, Inc. offers its employees a 401(k) Retirement Plan, with voluntary employer matching contributions. For all years during the examination period, there were no matching employer contributions.

Employees of Dental Source are also provided a medical benefits coverage with the employer paying 65% of premium and employee paying 35%. Other benefits provided include a 100% employer paid life, long-term disability and accidental death and dismemberment coverage (employee only), dental insurance, paid vacation (non-cumulative), sick leave, paid holidays and Cafeteria Plan (pretax Section 125 for medical premium only).

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2007, as reflected below, were sufficient in par and fair value to meet the deposit requirement for the state of Missouri in accordance with Section 354.707 RSMo (Capital and surplus requirements; deposit required).

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Bonds	\$206,000	\$206,064	\$205,996

Deposits with Other States and Territories

The Company also has funds on deposit with the state of Kansas. The funds on deposit as of December 31, 2007, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Kansas	Cert. of Deposit	\$75,000	\$75,000	\$75,000

INSURANCE PRODUCTS AND RELATED PRACTICES**Territory and Plan of Operation**

The Company is licensed by the Missouri Department of Insurance under Chapter 354 RSMo, (Health Services Corporation-Health Maintenance Organizations-Prepaid Dental Plans), to offer prepaid dental plans to organizations and/or individuals. Dental Source operates exclusively as a prepaid dental plan with no other lines of business.

The prepaid dental plans offered by Dental Source are an alternative approach to the fee-for-service method of reimbursing dentists for services rendered. It is a system by which specific predetermined dental services are provided to eligible subscribers by independent dental providers or entities contracting with the Company who, in turn, are compensated at a fixed per capita rate, usually on a monthly basis. In consideration for the dental coverage provided, the covered or eligible subscriber is required to pay for the coverage through periodic payroll deductions, bank drafts or direct billings. The Company is also licensed in the state of Kansas.

Direct premiums written in 2007, 2006 and 2005 were \$4,481,447, \$4,698,633 and \$5,030,932, respectively.

Marketing

Dental Source focuses its efforts on servicing individual and group subscribers with three major prepaid dental plans and acts as a Third-Party Administrator (TPA) for an indemnity plan offered by its parent company, First Continental Life and Accident Insurance Company. The prepaid dental plans are 1) DHMO-E, sold mainly to individuals. Under this plan, individuals must see a dentist in the network, co-payments are determined in accordance with the plan's schedule of benefits and are paid directly to the provider at the time of service. 2) DHMO-H, the same as the individual plan except that this plan is intended for group subscribers only. Group enrollment requires a minimum of three subscribers per group. Members must select a dental provider at the time of enrollment. 3) Senior Dent Mobile Dental Plan, is designed specifically for residents of living care facilities. The participating provider agrees to come directly to the care facility to provide dental service to the eligible member.

The Company also offers an indemnity plan that is underwritten by the parent company, FCL, with the special feature of no network restrictions. Under this plan, each subscriber is given the option of using the dentist of his or her choice. Basic and major services are subject to a combined lifetime deductible of \$100 per person and a maximum calendar year benefit of \$1,200 per person, excluding orthodontic services. The FCL plan is offered in conjunction with the DHMO plan and requires a minimum enrollment of three subscribers per group in the DHMO plan and an enrollment of at least two subscribers per group in the FCL plan.

The Company's products are marketed through a combination of internal sales staff and a network of independent agents and brokers. The Company's advertising efforts are limited to random mailings to prospective groups and the distribution of informational brochures to prospective members.

Provider Contracts

In order to provide the services associated with the dental plans it provides, the Company maintains a network of providers and has entered into the following provider agreements: Dentist Contract, Dentist Free Access Plan (FAP) Contract, Specialist Contract and Specialist FAP Contract. These contracts were filed with the Missouri Department of Insurance, Financial Institutions and Professional Registration as required under applicable regulations.

Policy Forms & Underwriting

Advertising & Sales Materials

Treatment of Policyholders

The DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. There were no market conduct examinations completed during the examination period and a cursory review of these areas during the course of this examination did not indicate any material problems.

REINSURANCE

General

The Company does not have assumed business or a reinsurance program. The Company's understanding of its lack of need of reinsurance is summarized thus: *Since the risk the Company assumes as a prepaid dental plan is a great deal less than that of most insurance companies, Company's management believes the cost of acquiring reinsurance on its existing business would be unnecessary and serve little or no benefit.*

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements were audited by the CPA firm, BDO Seidman, LLP, of Houston, Texas, for all years during the examination.

Appointed Actuary

Claims Unpaid and Unpaid Claims Adjustment Expense reserves as of December 31, 2007, were reviewed and certified by D. Deborah Allen, FSA, MAAA, EA, of Huntington Beach, California, who serves as the appointed actuary for the Company.

Accounting for Administrative (TPA) Services

During prior examinations and the current examination of Dental Source, it was noted that the Company performs administrative (TPA) services for other entities, including its parent, to earn fees and to expand the marketing of its products. Although part of the services provided include premium billing and collection, the underlying administrative services agreement in each of the situations is clear that all premiums, other than the portion belonging to the Company for commissions and fees, belong to the contracting parties. In reviewing the amounts the Company showed on its 2007 Annual Statement for both "Uncollected Premiums" and its "Advance Premium" lines, it was found these line items included amounts related to billings or collections by Dental Source on behalf of other entities for which Dental Source provides administrative services. Uncollected premium belonging to another entity should not be included in Dental Source's financial statements at all and premiums belonging to another entity collected in advance by Dental Source should be included in a liability other than "Advance Premium" on Dental Source's financial statement. Specifically, if the service partner is a non-related party,

any premiums received but not yet forwarded should be reported as part of the “Amounts Withheld or Retained for the Account of Others,” and if the service partner is a related party, any such premiums should be included as part of the “Amounts due to Parent, Subsidiaries and Affiliates” lines of the Annual Statement. Dental Source is directed to ensure that amounts included in Uncollected Premiums and Advance premiums relate solely to premiums due to Dental Source and that any amounts due to the service partners are correctly reported in the appropriate line of the Annual Statement as required by the applicable Statements of Statutory Accounting Principles.

Claims Unpaid and Retainers Payable

Currently, the Company divides the Claims Unpaid account by reporting Retainers Payable as a write-in to the Aggregate Write-in for Liabilities lines of the Annual Statement. The Company’s explanation for using this approach is that Retainers Payable amounts are capitation payments, not claims. However, SSAP #54 (Individual and Group accident and Health Contracts), paragraph 11, provides that reserving methodologies and assumptions used in calculating individual and group accident and health reserves are to meet the provisions of Appendices A-010, A-641, A-820 and A-822, as applicable, and also refers to the Health Reserve Guidance Manual (HRGM), which provides guidance related to reserving methodologies and assumptions used in determining individual and group accident and health reserves. The HRGM is designed to encompass all health coverages including medical, dental, disability and long-term care. The HRGM also states that capitation payments are to be included in the claim reserves. Accordingly, the Company is hereby directed to include the Retainers Payable portion of the reserves into the Unpaid Claims account and comply with the reporting requirements of SSAP #54 as noted, including the related provisions of Appendix A.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Dental Source for the period ending December 31, 2007. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the “Notes to the Financial Statements.” The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Notes to the Financial Statements.” These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Corporation and noted in the workpapers for each individual Annual Statement item.

Assets

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$280,996	\$0	\$280,996
Common Stocks	50,000	50,000	0
Cash and Short-term Investments	1,198,913		1,198,913
Investment Income Due and Accrued	5,668		5,668
Uncollected Premiums and Agents' Balances In the Course of Collection	100,065		100,065
Federal Income Tax Recoverable	14,164		14,164
Electronic Data Processing Equipment	5,335		5,335
Furniture and Equipment	3,268	3,268	0
Aggregate Write-ins – Other Assets, etc.	<u>3,700</u>	<u>3,700</u>	<u>0</u>
TOTAL ASSETS	<u>\$1,662,109</u>	<u>\$56,968</u>	<u>\$1,605,141</u>

Liabilities, Surplus and Other Funds

Claims Unpaid	\$ 147,217
Unpaid Claims Adjustment Expenses	6,557
Premiums Received in Advance	440,228
General Expenses Due or Accrued	98,875
Amounts Withheld or Retained or Retained	9,833
Remittances and Items not Allocated	30,016
Amounts Due to Parents, Subsidiaries and Affiliates	164,667
Aggregate Write-In Liabilities:	
Retainers Payable	100,959
Outstanding Checks	<u>18,893</u>
TOTAL LIABILITIES	\$1,017,245
Common Capital Stock	50,000
Gross Paid In and Contributed Surplus	174,294
Unassigned Funds (Surplus)	<u>363,602</u>
Capital and Surplus	<u>\$587,896</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$1,605,141</u>

STATEMENT OF REVENUE AND EXPENSES

Net Premium Income	<u>\$4,481,447</u>
Total Revenue	<u>\$4,481,447.00</u>
Hospital and Medical	
Other Professional Services	<u>\$2,689,653</u>
Subtotal	<u>\$2,689,653</u>
Claims Adjustment Expenses	73,350
General Administrative Expenses	<u>1,621,127</u>
Total Underwriting Deductions	<u>\$4,384,130</u>
Net Underwriting Gain or (Loss)	<u>\$97,317</u>
Net Investment Income Earned	21,885
Aggregate Write-ins for Other Income or Expenses	<u>41,991</u>
Net Income Before Federal Income Taxes	\$161,193
Federal and Foreign Income Taxes Incurred	<u>51,565</u>
Net Income or (Loss)	<u>\$109,628</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2006	\$479,727
Net Income or (Loss)	109,628
Change in Non-admitted Assets	(1,459)
Net Change in Capital and Surplus	<u>\$108,169</u>
CAPITAL AND SURPLUS, DECEMBER 31, 2007	<u>\$587,896</u>

NOTES TO THE FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Accounting for Administrative (TPA) Services

Page 15

Dental Source is directed to ensure that amounts included in Uncollected Premiums and Advance premiums relate solely to premiums due to Dental Source and that any amounts due to the service partners are correctly reported in the appropriate line of the Annual Statement as required by the applicable Statements of Statutory Accounting Principles.

Claims Unpaid and Retainers Payable

Page 15

Dental Source is directed to include the Retainers Payable portion of the reserves into the Unpaid Claims account and comply with the reporting requirements of SSAP #54 as noted, including the related provisions of Appendix A.

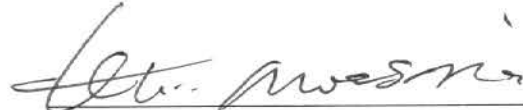
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Dental Source of Missouri and Kansas, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Barbara Bartlett, CPA, CFE, examiner for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Angela Campbell CFE, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment.

VERIFICATION

State of Missouri)
)
County of)

I, Levi N. Nwasoria, CPA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

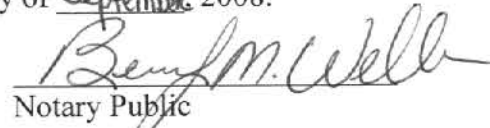


Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration


Sworn to and subscribed before me this 4th day of September 2008.

My commission expires:

04/14/2012


Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
County of Clay
My Commission Expires 4/14/2012
Commission # 08464070



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in cursive script, reading "Vicki L. Denton", is written over a horizontal line.

Vicki L. Denton, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration

Dental Source

Dental Health Care Plans

December 9, 2008

Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and
Professional Registration
P.O. Box 690
Jefferson City, MO 65102

Dear Mr. Nwasoria:

We are providing this letter in connection with your examination of the statutory financial statements of ***Dental Source of Missouri and Kansas, Inc. (DSMK)*** as of ***December 31, 2007***, and for the period from January 1, 2005 to December 31, 2007. We are responding to certain comments in the examination report for any corrective actions to be put into place during 2008 to alleviate the Missouri examiner's concerns going forward and to specific wording in the report where we are not in 100% agreement with the wording being represented to the general public. The management of DSMK wants to emphasize that no changes were recommended in the examination report in the financial statement section for either the statement of assets, liabilities, surplus and other funds or the Statement of Revenue and Expenses by the Missouri Department of Insurance, Financial Institution and Professional Registration.

Accounting for Administrative (TPA) Services

"Advance Premiums" and "Uncollected Premiums" reported on the statutory statements of DSMK have included the gross amounts received and to be collected on behalf of the Parent Company policies. The advance premiums represent group bill payments received prior to the month of coverage and are thus received in advance and the administrative fee applicable to these advance premiums are only recognized during the corresponding month of coverage to properly match revenues and expenses per generally accepted accounting principles. The report requests DSMK to reclassify the liability of the premiums received in advance on behalf of the Parent Company as a related party payable rather than as advance premiums. DSMK management understands and will comply with this interpretation in regards to the classification of the liability but the reclassification should not be for the full amount as DSMK is contractually obligated to the administrative fee portion of the advance dental insurance premiums collected and this net amount will remain as advance premiums. Similarly, the uncollected premiums will reflect only the administrative fee portion

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Dental Source

Dental Health Care Plans

of the billings on behalf of the Parent Company collected subsequent to the end of the reporting period and not the gross amount going forward.

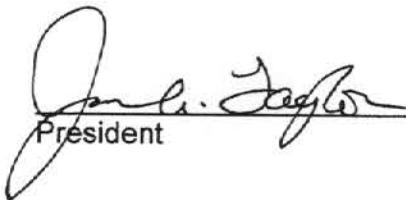
A detailed monthly reconciliation will continue to document the funds received and transferred on behalf of the 3rd party and the resulting statutory statement of operations will continue to recognize as income of DSMK only the administrative fee to which DSMK is entitled to for its services and **not the gross premiums**. DSMK personnel follow the terms of the administrative service agreement and conduct a monthly cash receipts and premium reconciliation to differentiate premiums of its own from any 3rd parties.

Claims Unpaid and Retainers Payable

Retainers payable has previously been reported in all years under examination separately from the claims unpaid line of the annual statement to reflect the unique method of provider compensation based upon a fixed amount based upon the membership selection of a network dentist as opposed to supplemental dental provider payments based upon services rendered. We will abide with the updated guidelines referenced in the Health Reserve Guidance Manual to combine and report the retainers payable with the other unpaid dental provider payments on the statutory statements. The DSMK general ledger will continue to separate the dental provider liabilities for internal management purposes.

Sincerely,

Dental Source of Missouri and Kansas, Inc.



President

December 9, 2008

Date



Chief Financial Officer – Dental Economics

December 9, 2008

Date

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Sugar Land, TX 77478

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